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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

October 15, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

EX PARTE: Federal-State Joint Board on Universal Service
CC Docket No. 96-45

Dear Mr. Caton:

Attached is a detailed description of GTE's auction proposal for determining universal service support. Please associate this description with the captioned docket.

Please call me if you have any questions regarding this matter.

Sincerely,

Charon J. Harris

cc: Federal State Joint Board Commissioners and Staff
A. Bush
T. Dale
D. Fertig
D. Gonzales
J. Kaufman
E. Kwerel
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GTE UNIVERSAL SERVICE PROPOSAL

▼ Detailed Description ▼

▼ PURPOSE:

GTE's universal service proposal is designed to provide explicit support to carriers wherever necessary to maintain affordable rates and to low-income customers throughout the country, provide competing carriers access to high-cost funding on equivalent terms, and replace regulation with a sustainable and fair market mechanism.

This is accomplished by determining the amount of support explicitly required by today's telephone companies for providing a basic universal service package at an affordable price, and providing those carriers with explicit support from a competitively-neutral fund for the costs of such services above the affordable rate. Other carriers interested in serving as carriers of last resort in reasonably-sized geographic areas would be free to indicate their interest in providing universal service on equivalent terms and also obtaining equivalent support monies by requesting that those areas be put up for competitive bid. A sealed-bid auction, designed to permit multiple carriers to "win," then would be conducted to determine the amount of universal service support that would be provided to all "winning" carriers in each market.

This paper describes GTE's proposal in greater detail, with the essential components that any universal service proposal must address. These include:

I. *Carrier Obligations*

II. *Plan Thresholds and Geographic Boundaries*

III. *Calculation of Support Available in Each Area*

IV. *Distribution of Funding*

V. *Funding Sources*

VI. *Off-setting Rate Reductions*

VII. *Competitive Bidding Mechanism* .

I. CARRIER OBLIGATIONS

To ensure competitive neutrality, all carriers that obtain high cost universal service support for a given geographic area must be subject to identical universal service obligations.

First, this will ensure that the services provided by each carrier meet minimum requirements determined by state regulators and expected by residential customers.

Second, specific obligations will ensure that funding is provided to all interested carriers in a manner that promotes competition. Some will not be able to have lessened responsibilities than others and receive the same amount of funding in a given area.

Third, specific obligations will permit the use of a simple auction mechanism where the only variable on which carriers will be bidding in the auction will be the amount of support required from the fund to provide the prescribed service in a given area. All other aspects of a carrier's decision (geographic area, term of service, universal service package definition, etc.) will have been specified in advance by state regulators according to broad Federal-State Joint Board guidelines.

A. Core Service Obligation

The Joint Board should recommend and the FCC should define the specific attributes of a universal service package. Any carrier interested in receiving universal service support should be required to provide this service to any customer within areas eligible for universal service support funding. The service definition should be technology neutral and be comprised of the following features:

1. *Residence voice grade access to the network which provides the ability to place and receive calls and access to long distance carriers of the customer's choice*
2. *Touch-tone service*
3. *Single-party service*
4. *Access to operator services and directory assistance*
5. *Access to emergency services (911/E911)*
6. *Standard white pages directory listing.*

Policy Rationale

Consumers, regulators, and carriers all benefit from a clear definition of the service that is desired to be universally available. Customers can expect availability of a basic service package throughout the country. Regulators can be sure that any carrier determined to be eligible will, at a minimum, provide consumers with a specified set of features and functions. Carriers will know what their service obligations are, so they can determine with greater certainty the costs of providing service in a given area before committing to do so. Each state would be free to add elements to this national definition and fund them through its own state program.

Legal Authority

Section 254(c) gives the FCC the authority, upon recommendation of the Joint Board, to establish which services shall be deemed part of universal service.

B. Carrier of Last Resort (COLR) Obligation

In general, COLR obligations should be consistent with those which the incumbent LECs face today. Because these requirements may vary among LECs, states, and serving areas, it is not possible, nor is it necessary, for a federal universal service plan to dictate specifics of the COLR obligation. However, any federal universal service plan should set forth minimum guidelines for state determination of uniform COLR requirements.

Any carrier receiving high-cost support must comply with the following obligations:

1. *Meet state qualifications*
2. *Provide the basic service package to any residence customer in a bidding area at a price no higher than the Affordability Threshold.*
3. *Serve as COLR for set period of time (3-5 years)*
4. *Meet state minimum service quality standards*
5. *Provide for interconnection and equal access*
6. *Make services available for resale at reasonable rates*

Under this approach the states would develop a two-step process. First the states would determine which carriers, among all those interested in providing universal service in a high-cost area, would be eligible to receive universal service support. Second, funding actually would be provided to those eligible carriers which agree to a minimum set of "carrier of last resort" obligations, consistent with federal guidelines. In particular, the federal guidelines would require that whatever obligations the state may establish for COLRs should be the same for all COLRs in a given area. Under GTE's proposal, these carriers would be self-selected through a competitive bidding mechanism. The following is a description of the minimum set of obligations a state should require of any carrier receiving universal service support.

1. *State qualifications*
   In order to ensure consumers receive continuing and reliable service from any carrier seeking to receive universal service funding support, states should develop a minimum set of criteria, in effect a set of "fitness" requirements. This could be a simple certification process as to a firm's financial capacity to meet the carrier of last resort obligations in a given market area.

2. *Provide the basic service package*
   This is described in the previous section. Each carrier receiving federal support would be required to provide to any customer requesting the universal service basic package, within a given area, the full complement of service features as defined by the Joint Board. The carrier must provide the basic service package at a price that does not exceed the Affordability Threshold set by regulators or the regulated local rate, whichever is less. The carrier would also meet any limits on terms and conditions established by the state.

3. *Serve as COLR for set period of time (3-5 years)*
   When an area is set for auction, the terms of the auction would require carriers to commit to serving all customers within a given market for a set period of time. The service obligation must also be designed to encourage carriers to invest in given market areas. Winning bidders in the initial auction for a service area will bear COLR obligations for three years; in subsequent auctions, COLR obligations will extend for five years.

4. *Minimum service quality standards*
   To the extent that most states maintain quality requirements for carriers, these requirements should be spelled out for all carriers seeking federal universal service support. Encouraging the entry of new carriers to provide universal service should not result in the vitiation of regulators' service quality objectives. New service standards imposed on COLRs in high-cost areas may increase their costs and would trigger an auction to allow COLRs to determine the appropriate funding level.

5. *Provide for interconnection and equal access*
   Carriers seeking to receive funding for supplying universal service must provide for access to long distance carriers of the customer's choice and permit other carriers to interconnect facilities. To the extent these requirements are not imposed on all carriers, progress made to date in implementing these policies will erode as new carriers gain customers and provide a lesser scope of services. Any reduction in interconnection and access also would hinder the development of competition, even from carriers not requiring support.

6. *Resell services*
   Under GTE's proposal, resellers may enter markets as carriers of last resort. However, each COLR must be able to provide service to all customers in the area, regardless of how the COLR provisions the service. This responsibility must rest with the COLR and not with the underlying carrier. However, resellers would only be eligible for support monies if the price they pay for the resold facilities is not artificially constrained by regulation, but rather is established using a market-based mechanism. When a COLR is supplementing its own facilities by reselling facilities obtained at a constrained price, the underlying carrier should receive the universal service support for the customer served, not the reseller.

Policy Rationale

There is an inherent conflict between a functioning competitive market and the need to subsidize the costs of carriers which operate in certain high-cost areas. For there to be competition, more than one carrier needs to provide service. For these competitors to compete on equal footing, support provided to any carrier must be available to others on equal terms and conditions. Finally, the support must be provided in a manner which limits the amount of funding to a sufficient level.

Regardless of the method chosen to determine which carriers may receive universal service support funding, the ground rules for all carriers must be identical. One carrier should not receive more support for serving a customer than another if both are subject to the same service requirements. Similarly, one carrier should not be subject to more or fewer service obligations than another, given the same level of support. It would be extremely difficult to provide varying levels of support to carriers depending on different levels of obligations.

While the imposition of symmetrical COLR obligations should be applied under any type of universal service plan, it would be an essential component when using competitive bidding to determine support levels.

- First, carriers seeking universal service support must have something tangible upon which to bid. Just as vendors who bid on contracts from governments and businesses expect payment (in accordance with the bid) for services rendered, receipt of universal service support must also be tied to a clear obligation to perform a specific service.
- Second, if one bidder in the auction is unduly burdened with certain regulatory obligations and costs that are not extended to all other participants in the auction, a competitively-neutral result will not be assured, and the level of compensation determined would not induce efficient market entry.
- Finally, assigning a basic set of COLR requirements on all successful bidders provides greater assurance to regulators that basic telephone services will be provided to all customers, at an acceptable price and quality, over time.

GTE has proposed that recipients of USF funding be required to fulfill their COLR obligations for a period of 3-5 years. A period in excess of one year is necessary to provide service stability and predictability to local subscribers and to give bidders some reasonable expectation of revenue to support necessary investments. On the other hand, the service obligation period should not be excessive so as to deter efficient entry of new competitors willing to assume COLR responsibilities and receive USF support.

A COLR that fulfills its obligation and does not become a COLR in a subsequent period is not forced to cease serving customers in an area. A carrier that does not retain COLR status has a reduced service obligation (e.g., is not required to offer service ubiquitously in an area), can choose the customers it prefers to serve, and will not be subject to any price regulation, but no longer is eligible for USF monies.

Legal Authority

State commissions designate eligible telecommunications carriers under Section 214(e). To be an eligible telecommunications carrier, a carrier must offer the services that are supported by the federal universal service mechanism. See Section 214(e)(1)(A). Eligible telecommunications carriers may only receive universal service funding, "in accordance with Section 254," see Section 214(e)(1), which provides the FCC authority to create a minimum COLR obligation as part of the federal universal service plan. See Sections 254(b)(5), (b)(7).

In addition, Section 254(b)(5) specifies that the federal universal service plan be sufficient to preserve and advance universal service. A plan with asymmetrical requirements for the same support would not result in a "sufficient" plan to meet the requirements of this section.

II. PLAN THRESHOLDS AND GEOGRAPHIC BOUNDARIES

A. Affordability Threshold

The Joint Board and FCC should establish a monthly rate threshold for the basic service package above which costs to provide such service, on a per customer basis, would be considered high cost and funded by federal and state funds. This Affordability Threshold also will define a maximum rate which customers should be expected to pay for receiving the basic package of universal service.

GTE supports the use of household income to determine this Affordability Threshold. Further, GTE supports the local exchange carrier industry's efforts to refine the methodology for calculating the affordability threshold. It would be appropriate to establish the Affordability Threshold at 1% of household income calculated on a county basis, with a lower bound at one standard deviation from the nationwide median income and an upper bound at one standard deviation.

B. *Federal Support Threshold*

The FCC, with advice from the Joint Board, should establish a monthly Support Threshold (greater than the Affordability Threshold) above which the costs of providing the basic service package would be covered entirely by the federal jurisdiction. A combination of the state and federal funds could cover the difference between the federal Support Threshold and the Affordability Threshold.

C. *Affordability Transition*

States should transition local service rates for the basic service package to the Affordability Threshold or cost, whichever is less, or create independent state mechanisms under Section 254(f) if the state wants to hold prices below that threshold.

D. *Bidding/Geographic Area*

The Joint Board and FCC should determine the geographic area upon which the costs of universal service support will be determined (if any) and within which carriers receiving such support will be required to provide service to all customers. The Joint Board must balance the need for plan simplicity with competition issues. Smaller geographic areas — such as Census Block Groups (CBGs) — not only would ease the start-up burden on new entrants, but would maximize the homogeneity of costs faced by incumbents already operating in these areas. Otherwise stated, smaller areas would limit the variation of costs faced by carriers; larger areas, such as wire centers, would mix lower-cost town centers with significantly higher-cost outlying areas.

GTE proposes CBGs as the best choice of geographic unit. The selection of the area and auction structure will affect the degree to which targeting of support can be achieved. CBGs can be subdivided when necessary to accommodate existing service areas and to improve targeting of support.

E. *Income-based Assistance*

Individuals eligible for income-based support can request local service from any carrier operating locally. Customer eligibility would be determined by a customer's participation in a federal or state income assistance program. Self certification should not be employed.

Carriers need not be eligible telecommunications carriers or carriers of last resort for this purpose. Carriers will credit customers' accounts with the income-based support amount for each eligible customer served. This program can accommodate existing federal "Link-Up" and "Lifeline" mechanisms. The FCC and states can review periodically the amount of support provided under this program to determine the need for adjustments. This program should not be tied to the existing interstate SLC, since only incumbent LECs assess such a charge.

Policy Rationale

A universal service plan should be based on market principles. The plan should expose customers to a reasonable price for universal service, while intervening to hold down that price in high-cost areas. This would provide carriers with sufficient support to offer a market rate for their services. Currently, high cost assistance programs are not directly linked to local service prices. Support provided to carriers is based on a formula which considers average costs, with the remainder of any support needed coming from prices for other services or to other customers charged, which also reflect average costs. Properly established thresholds would send market price signals to both customers and carriers entering the market.

Legal Authority

The FCC must ensure that quality universal services are available at affordable rates. Section 254(b)(1). States may designate service areas as they choose for all areas except those served by rural telephone companies. The 1996 Act designates these as study areas until the FCC and states change them in conjunction with a recommendation from the Joint Board. The 1996 Act limits the availability of universal service funding, however, to eligible telecommunications carriers that offer universal service "in accordance with Section 254." Section 214(e)(1). Thus, the FCC could adopt small bidding areas as part of its authority to devise a comprehensive universal service support mechanism. See Sections 254(b)(5), (b)(7).

III. SUPPORT CALCULATION

Initial universal service support should be determined by comparing the actual costs of providing a basic universal service package with the Affordability Threshold selected by the Joint Board. Carriers, for which the per customer cost of providing universal service is greater than the Affordability Threshold, would receive support for the amount over the Affordability Threshold for each customer served in a given area. Once the initial cost-based level is established, the level of support should be subject to competitive bidding. Carriers would bid on the level of support they needed to provide universal service in a given market when constrained by an Affordability Threshold and other carrier obligations outlined above.

In the context of competitive bidding; it is useful to distinguish between the calculation of support provided to incumbent carriers prior to any requests for competitive bidding and the determination of support under a competitive bidding process. The following, therefore, distinguishes between "Day 1" when the new universal service explicit funding mechanism is established and "Day 2+" when carriers determine support through the competitive bidding process.

A. Day 1

1. The actual costs experienced by an Incumbent LEC are either calculated for each geographic area (Census Block Group) or are assigned to CBGs from a higher level of aggregation (e.g. study area) through the use of relative cost estimation models. If a carrier can determine actual costs on a CBG basis, they can directly assign those costs without the use of a cost estimation model.
2. For each customer served, a carrier would receive support for the difference between the Affordability Threshold and the per customer, actual cost within each CBG.
3. Where the rate charged to customers exceeds the Affordability Threshold or cost, the rate should transition down to the threshold or cost, whichever is less.

B. Day 2+ (Unique to Auction Proposal)

1. Entrants notify a state commission of their intent to bid for the opportunity to provide universal service as a carrier of last resort and to receive funding at a level determined by the competitive bidding process.
2. States would conduct auctions at regular intervals, initially twice each year on a fixed date. Each scheduled auction would include those market areas designated for auction by new entrants. Once auctioned, a CBG would not be subject to auction again until the expiration of the term commitment for winning carriers of last resort.
3. Upon determination of auction winners, funding is provided to all "winners" for each customer served based on the winning bid.

Policy Rationale

Especially with the use of a competitive bidding mechanism, it is entirely appropriate to initiate a new explicit universal service funding mechanism at today's actual cost of providing service. The only actual cost experience in providing such services is captured in the reported costs of existing incumbent local exchange carriers. Thus, it is a reasonable starting point, with the auction mechanism to adjust support requirements to competitive market levels. Relying instead on cost proxy estimates could deter competitive entry (not enough support for new entrants) while under-compensating existing carriers.

Once completed, auctions could then be scheduled for each market upon completion of the COLR term of service. These subsequent auctions would permit adjustments to the support required for universal service, taking into account the addition of advanced services to the basic universal service definition, changes in technology, and cost structures. Without competitive bidding, regulators would be forced into an endless cycle of re-estimating costs to account for these changes.

Legal Authority

The FCC has the authority to adopt a universal service support mechanism as long as it is "specific, predictable, and sufficient." Section 254(b)5). GTE's auction proposal is predictable because it sets specific parameters for the auction process, and it sets a defined period for the COLR obligation. In addition, the GTE universal service support plan is specific and sufficient because it is comprehensive, it accounts for universal service support both before and after the emergence of competition, and it can be applied to all areas in which universal service support is necessary. An auction also would result in presumptively sufficient funding because the service provider would be specifying what they believe to be a sufficient amount in their bid.

IV. Distribution of Funding

The distribution of funding to carriers will first be determined by geography, with each CBG being assigned funding for the amount that the cost of serving each subscriber exceeds the affordability threshold, totaled across all subscribers in the area. Following an auction for a given geographic area, the support would be based on the winning bid. Any carrier operating as a carrier of last resort (and among the winning bidders when auctions are held) receives fund support for each customer served.

Policy Rationale

Funding of universal service should be efficient, sufficient, and simple. GTE's proposed auction mechanism and support mechanism would accomplish these goals. Funding provided on a per customer basis to each carrier will ensure competitive neutrality and an equitable distribution of funding support. Coupled with symmetrical carrier obligations, this funding method will encourage competition, not on the basis of different obligations or funding eligibility, but on price, service quality, and other service attributes.

Legal Authority

Under the 1996 Act, universal service support "should be explicit and sufficient to achieve the purposes of [Section 254]." Section 254(e). This distribution of funding ensures this result.

V. Funding Sources

Support requirements should be raised using a uniform surcharge on the telecom retail revenues of all service providers. The FCC may impose a uniform surcharge on all telecom retail revenues of carriers that provide interstate service. States may impose a uniform surcharge on the intrastate telecom retail revenues of carriers providing intrastate service. Because it is difficult to determine intrastate revenue for interexchange carriers, it may be desirable for states to also place a surcharge on all telecom retail revenues billed within a state. A federally-ordered plan granting states such authority may resolve potential legal issues.

A national plan with shared federal and state responsibility should be strongly considered. In such a plan, funding responsibilities would be as follows:

Federal Fund

- *Cover those costs above a federal Support Threshold that is set higher than the Affordability Threshold.*

State Fund

- *Cover the difference between the rate ceiling imposed by the state and the lower of the Affordability Threshold or the cost.*

Shared Responsibility

- *Cover costs above the Affordability Threshold, but below the federal Support Threshold.*
- *Cover income-based assistance programs.*

States are free to fund any additional universal service requirements they deem appropriate within their jurisdictions.

One major advantage of federal and state regulators sharing responsibility for the plan is the ability for each to link the plan implementation to the development of rational rate structures in their respective jurisdictions.

Policy Rationale

A uniform surcharge applied to telecom retail revenues will result in an explicit and competitively neutral funding mechanism. Customers, faced with uniform surcharges on telecom retail services of all carriers, will not have the incentive to switch from one carrier or service to another merely because of surcharge amounts. A uniform surcharge also is the simplest mechanism.

The fund should not be based on gross revenues, because this would lead to double counting of wholesale transactions. This double counting would distort the prices of services made from inputs bought at wholesale, and would create an artificial incentive for carriers to vertically integrate in order to eliminate the wholesale transaction. This distortion is tolerable in the TRS fund, which uses gross revenues today, because the TRS fund is relatively small, but would be unreasonable in a universal service fund.

Legal Authority

The 1996 Act requires "every telecommunications carrier that provides interstate telecommunications service" to contribute, "on an equitable and nondiscriminatory basis," to the support mechanism that the FCC establishes to preserve universal service. Section 254(d). "Every telecommunications carrier that provides intrastate telecommunications services" shall contribute, "on an equitable and nondiscriminatory basis" to state mechanisms to support universal service. Section 254(f).

VI. Offsetting Rate Reductions

Since universal service will be funded by an explicit program, any increase in the explicit support received by incumbent carriers at the outset of the program should be offset by price reductions of other services, which currently provide implicit support, on a revenue-neutral basis. Revenue offsets should be applied to those incumbent LEC services which bear the greatest amount of implicit support, both interstate and state, not to any single rate element. Interstate reductions should be applied to the carrier common line, the residual interconnection charge, and the subscriber line charge. Funds from the federal fund also should be used to offset those state rates which currently provide implicit support.

Policy Rationale

Off-setting rate reductions are required to ensure that incumbent LECs are not over-compensated with explicit universal service funding. These rate offsets are especially important given the FCC's recent interconnection order. The more focused the offset on implicit support-bearing services such as access, the closer the rates can be set to the prices of unbundled elements which comprise access services. One of the logical outcomes of the national pro-competitive policy is that prices would more closely resemble costs.

Legal Authority

The Act requires funding for universal service through explicit, rather than implicit, support. See H. R. Conf. Rep. No. 458, 104th Cong., 2d Sess. 131 (1996). In addition, the FCC in its Interconnection Order made clear that it would not permit the recovery of universal service support through rates charged for services and elements available under Section 251. Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, First Report and Order, CC Docket No. 96-98, FCC No. 96-325 at para. 712 (released August 8, 1996) ("Interconnection Order"). However, the Commission maintained that ILECs should continue to recover certain non-cost-based interstate access charge revenues for a limited time to avoid harming universal service. Id at para. 715.

While Congress created distinct obligations for ILECs to unbundle network elements and resell local service in its entirety, See Section 251(c)(3),(c)(4), the Commission extended these obligations to permit new entrants without any facilities to take advantage of either method, permitting the combination of all unbundled elements to offer complete telecommunications services, including exchange access services. Interconnection Order at para. 329-333.

At the same time, the Commission has also determined that when ILECs resell local service pursuant to Section 251(c)(4), the 1996 Act requires that ILECs continue to receive access charge revenues. Id. At para. 980. However, with respect to unbundled network elements, the Commission determined that telecommunications carriers purchasing unbundled network elements to provide local and exchange access services are not required to pay federal or state exchange access charges, except for the carrier common line charge and a charge equal to 75% of the transport interconnection charge until the earliest of 1) June 30, 1997; 2) final FCC decision on universal service and access reform; or 3) if the ILEC is a BOC authorized under Section 271 to provide in-region interLATA service. Id. at para. 720.

Thus, because the Commission has created the opportunity for new entrants to bypass some level of access charges in the interim, and all access charges within less than a year, through the purchase of unbundled elements, ILECs need to be able to implement offsetting reductions in rates for services that bear implicit support to remain competitive.

VII. Auction Mechanism

Competitive bidding can be used to introduce a competitive market mechanism into a traditionally closed system of universal service funding. Auctions can determine the amount of support received by a carrier willing to meet certain obligations. Auctions are far likelier to result in a reasonable and competitively-neutral result than would cost estimation models. However, auctions will not work unless carriers have something to win and if they run a risk in winning it. Only winners would be permitted to receive universal service funding. But, all qualified carriers, including incumbent LECs, would have the opportunity to lose or withdraw.

A. Notification Mechanism

State commissions should conduct auctions twice each year initially. Carriers may notify states 90 days in advance of each auction date as to the Census Block Group(s) on which they intend to bid. This notification will place those identified markets into the next auction round. Once a market has been subject to a completed auction, it will not be re-bid until the carrier of last resort's obligation and a minimum auction interval have been achieved.

B. Auction Design Principles

1. All winners should receive the same level of support.
2. The auction design should be as simple as possible, for ease in administration using Census Block Groups.
3. The auction should be designed to minimize the possibility of collusion among the bidders.
4. Bidder qualifications are important to consider in advance of an auction, given that bidders are assuming an obligation in exchange for support payments.

C. Auction Objectives

1. Encourage competition both "in the market" and "for the market" to encourage carriers to provide innovative and quality services to consumers.
2. Have the "winners" be the carriers for whom the actual cost of providing service is lowest or who are willing to provide service for the lowest level of support.
3. Constrain the amount of support payments required.

D. Auction Mechanism - One Proposal

1. Incorporate notification mechanism (above.)
2. State commissions establish a maximum support rate based on some multiple above actual, estimated cost in order to accommodate situations where the initial costs are under-estimated. If the auction cannot adjust support both up and down, then firms would have an incentive to enter only in areas where costs had been overestimated. Room is also needed to adjust the support level to reflect changes in the definition of universal service.
3. Carriers nominating CBGs for auction would be required to establish their qualifications to be carriers of last resort or winners of the auction.
4. Other parties may nominate additional, adjacent areas to be included in that auction.
5. Carriers submit sealed bids in a single round for each market indicating the amount of support they require in each CBG.
6. The winning bidders are those whose bids fall within a specified percentage of the lowest bid. When the bids are grouped close together, a larger number of bids will be accepted; when they are farther apart, fewer bids would be accepted. Each winning bidder would be designated a COLR, and would receive the same per-customer support, which would be set at the level of the highest accepted bid. Each COLR

selected in the initial auction would commit to undertake the obligation for at least three years. At the end of that time, the area would again become subject to notice by any qualified carrier for another auction. Until such notice is submitted, the support would continue for the incumbents at the level determined in the initial auction.

7. Bidders are permitted to withdraw from one or more market areas after results of the auction are disclosed, subject to the payment of a reasonable withdrawal penalty.
8. The minimum number of bidders is two. If, as a result of bids being withdrawn, the number of bids is less than two, then the auction is canceled. Support would continue at the level previously provided.

Policy Rationale

Auctions have a number of advantages over the use of cost models. (See Statement of Paul Milgrom, CC Docket 96-45.) As pointed out above, support levels are set using a market mechanism. No cost estimation model will ever be as accurate for a carrier as a carrier's own bid in an auction. Auctions also can be set up to determine how many carriers should operate in a given market and which carriers they should be. Especially if they are conducted at regular intervals, auctions would provide important information about the costs of providing universal service. This information would be useful both to would-be competitors evaluating other markets and to regulators. When conducted over time, as carriers complete their obligation terms, auctions will automatically adjust support payments to take account of changes in technologies, service definitions, population shifts, and other factors.

Legal Authority

The Commission has the authority to adopt a universal service support mechanism as long as it is "specific, predictable and sufficient." Section 254(b)(5). As demonstrated above, auctions for universal service support adhere to these statutory criteria.